

October 10, 2003

The Honorable Barbara Boxer
United States Senate
112 Hart Senate Office Building
Washington, DC 20510-0505

RE: S.150 – Internet Tax Non-Discrimination Act

Dear Senator Boxer:

Once again, the City of Santa Barbara seeks your assistance in opposing language added to the Internet Tax Non-Discrimination Act (S. 150) that would expand the coverage of the moratorium by adding “telecommunications services” to the definition of Internet access. It would prohibit a local tax on any “telecommunication service” that is used for Internet access. Nearly all telephone services, including local dial up, wireless, satellite, and broadband (DSL and cable modem), provide Internet access.

This language would have a major adverse impact on our City and the financing of its essential services, such as police, fire, streets, and parks. In this city, the utility users tax (UUT) on “telecommunication services” represents a full 4% of our total general-purpose revenues. As you know, cities in California are already under intense budget pressure due to a stagnant economy and the State’s budget situation. The loss of a major portion of our existing UUT would be a further blow to our ability to provide essential local services.

Soon, major telephone and Internet service providers will offer “packages” that bundle together Internet access and unlimited telephone services. Unfortunately, under the proposed language, such bundled services will likely be considered “tax-free”, which we find regressive and unfair. Even if the average consumer would continue to be subject to the local tax (UUT) on traditional telecommunication services, those persons who could afford computers and high-speed Internet access (i.e., DSL and cable modem) would slip through this loophole and permanently escape taxation on similar services. No matter how much we wish to support the continued growth of the Internet, discriminatory taxation, or favoring the “haves” over the “have-nots”, is not the answer.

Finally, we want to assure you that we are in no way asking for your opposition to this language as a way of helping us achieve new tax revenues. We are only asking for help with protecting our city’s badly needed existing tax revenues on telecommunication services, which currently represent \$3.2 million annually.

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Thank you for your attention to this urgent matter. If you have any questions or need additional information, please feel free to call the League of California Cities Executive Director, Chris McKenzie at 916/658-8200, or your staff can contact the League's Washington representative, Eve M. O'Toole, at 202/833-0007.

Sincerely,

Marty Blum
Mayor

cc: Senator Dianne Feinstein
Chris McKenzie, Executive Director, League of California Cities
Eve M. O'Toole, Washington, DC Representative, League of California Cities
Jim Armstrong, City Administrator
Robert Peirson, Finance Director
Don Olson, Special Projects Manager
City Council Members